

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 98-114-W - ORDER NO. 98-788

OCTOBER 16, 1998

IN RE: Application of Startex Utility System, Inc. for Approval) ORDER	✓ MR
of a New Schedule of Water Rates for Water Service) APPROVING	
Provided to it Customers in South Carolina.) RATES AND	
) CHARGES	

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of Application filed by Startex Utility System, Inc. (Startex or the Company), for an increase in its rates and charges for water service provided to its customers in Spartanburg County, South Carolina. This Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended and 26 S.C. Regs. 103-821 (1976), as amended.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was filed by the Consumer Advocate for the State of South

Carolina (the Consumer Advocate).

On September 24, 1998, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room. Pursuant to S.C. Code Ann., §58-3-95 (Supp. 1992), a panel of three (3) Commissioners, Commissioners Bradley, Moseley, and Carruth, was designated to hear and rule on this matter. Commissioner Bradley presided. The Company was represented by Joseph K. Maddox, Jr., Esquire; the Intervenor, Consumer Advocate for the State of South Carolina was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff was represented by F. David Butler, General Counsel.

The Company presented the testimony of Charles Stegall. The Commission Staff presented the testimony of Jimmy W. Wood, Accountant/Fiscal Analyst and William O. Richardson, Utilities Engineer

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The Company is a wholly owned subsidiary of Spartan Mills, a textile company that operates a textile mill in the community of Startex, South Carolina. Water is purchased from Startex Jackson Wellford Duncan Water District (SJWD). The Company is operating under rates set in Order No. 91-29, issued on January 8, 1991 in

Docket No. 88-261-W/S. The Company has 301 water and sewer customers. The Company is not asking for any increase in the sewer rates.

2. With regard to Startex's present rates, the Company has a minimum monthly water charge of \$6.50, which includes 2,500 gallons. The Company then charges \$1.80 per 1,000 gallons for all usage over 2,500 gallons. The Company has a \$300 water tap fee. The proposed rates are, for monthly basis, a minimum monthly charge of \$15.00, which includes 2,500 gallons. For the next 12,500 gallons, the rate is \$3.76 per 1,000 gallons. For all over 15,000 gallons, the rate is \$3.08 per 1,000 gallons. On a bi-monthly basis, the minimum rate is \$30.00, which includes 5,000 gallons. The next 25,000 gallons will be priced at \$3.76 per 1,000 gallons. All over 30,000 gallons will be priced at \$3.08 per 1,000 gallons. The Company also seeks an increase in the water tap fee to \$1100. The Company is requesting additional revenues of \$49,549.

3. Startex asserts that its requested increase in rates and charges is necessary and justified because the Company's present rates do not generate enough income to properly maintain the system and to ensure adequate water services for all of its customers. According to the testimony of Charles Stegall, Startex is a water-sewer utility that serves some 301 customers in Spartanburg County, South Carolina. Stegall states that at the time the present rate structures were approved, the approved amounts were reasonable. Stegall asserts that since that time, there have been continuing expense increases, and he further asserts, that the added costs of operating the Company has increased to a great degree, including an increased price for water from SJWD.

4. Under the Company's presently approved rates, after pro forma and accounting adjustments, the Commission's Staff determined that Startex's operating revenues, operating expenses, and net income for return for water were \$40,740, \$80,029, and (\$39,289) respectively, for the test year ending November 30, 1997. The Company proposes operating revenues, expenses, and a net income for return of \$ 90,289, \$80,339, and \$9,950 respectively.

CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses, and consequently, the validity of the utility's requested rate increase. While the Commission considers the utility's proposed rate increase based upon occurrences within the test year, the Commission will consider adjustment for any known and measurable and out-of-test-year charges and expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell Telephone & Telegraph Company v. The Public Service Commission of South Carolina, 270 S.C. 490, 244 S.E. 2d 278 (1978). In light of the fact that the Company proposes that the 12-month period ending November 30, 1997, as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-

month period ending November 30, 1997 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff are appropriate and are hereby adopted by the Commission. The Staff properly increased operating expenses for the increase in purchased water expense from SJWD. The Staff also properly eliminated certain inappropriate revenue items, and per book interest expense. We must deny the requested tap fee increase, since there is no evidentiary support for such an increase.

4. The Commission concludes that after pro forma and accounting adjustments, the Company's test year operating revenues, operating expenses, and net income for return for its water system were \$40,740, \$80,029, and (\$39,289) respectively. These figures are reflected in Table A as follows:

TABLE A
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$ 40,740
Operating Expenses	<u>80,029</u>
Net Operating Income	(39,289)
Customer Growth	<u>0</u>
Total Income for Return	<u><u>(\$ 39,289)</u></u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S.

679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility “has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.” However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues “sufficient to assure confidence in the financial soundness of the utility... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.” Bluefield, *supra*, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the “operating ratio” and/or “operating margin” method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company’s gross revenues, operating expenses, and customer

growth for the test year, the Company's present operating margin for water operations is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE	
Operating Revenues	\$ 40,740
Operating Expenses	<u>80,029</u>
Net Operating Income	(39,289)
Customer Growth	<u>0</u>
Total Income for Return	<u>(39,289)</u>
Operating Margin	<u>(117.67%)</u>

7. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company but also the proposed price for the water treatment, the quality of the water service, and the effect of the proposed rates upon the consumers. See Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

8. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while

promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island, and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 1.44% operating margin on its water operations. In order to have a reasonable opportunity to earn a 1.44% operating margin, the Company will need to produce \$90,289 in total annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$ 90,289
Operating Expenses	<u>80,339</u>
Net Operating Income	\$ 9,950
Customer Growth	<u>0</u>
Total Income for Return	<u>\$ 9,950</u>
Operating Margin	<u>1.44%</u>

10. In order to earn the additional operating revenues necessary to earn an operating margin of 1.44%, additional annual revenues will be required of \$49,549. In order to earn these additional revenues, we hold that the rates as proposed by the Company, with the exception of the proposed increase in tap fees, should be adopted. Upon examination of the record, we do not believe that an increase in the amount of the tap fee is warranted at this time.

11. In considering the requested increase, the Commission has considered the interests of the utility, as well as the customers of Startex. The Commission has determined that the proposed increase is reasonable, with the exception of the tap fee.

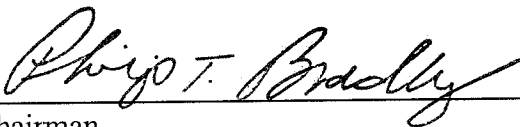
12. Accordingly, it is ordered that the rates attached as Appendix A are hereby approved for service rendered on or after the date of this Order.

13. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

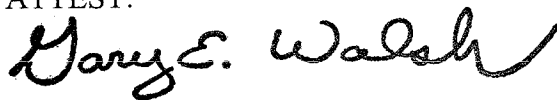
14. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water and sewer utilities as adopted by this Commission.

15. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:



Executive Director

(SEAL)

APPENDIX A

**STARTEX UTILITY SYSTEM, INC.
P. O. BOX 623
STARTEX, SC 29377
843-439-5279**

FILED PURSUANT TO: DOCKET NO. 98-114-W - ORDER NO. 98-788
EFFECTIVE DATE – OCTOBER 16, 1998

SCHEDULE OF WATER RATES AND CHARGES

- | | |
|---|----------|
| 1. New tap: | \$300.00 |
| Standard size tap and water meter. | |
| Non-standard connections will be | |
| Charged at cost to Startex Utility | |
| System, Inc. plus 10%. | |
| 2. Non-refundable service charge to establish service | \$20.00 |
| 3. Non payment of bills – reconnection charge | |
| Meter removed and/or sewer disconnected | \$25.00 |
| Meter not removed | \$10.00 |
| 4. Minimum monthly charge – includes 2,500 gallons | \$15.00 |
| 5. Volume Charge – per 1,000 gallons | |
| Monthly usage – all over 2,500 | |
| Next 12,500 gallons | \$3.76 |
| all over 15,000 gallons | \$3.08 |
| 6. Deposit to establish credit – refundable | \$40.00 |
| with interest, or may be waived, upon proof | |
| by customer of prompt prior payment of | |
| utility bills. | |